

Message Text

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ACTION ARA-10

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SUBJECT: SENATE APPROVES FIRST READING OF OIL NATIONALIZATION
BILL

REF CARACAS 8139

BEGIN SUMMARY. THE VENEZUELAN SENATE PASSED THE OIL NATIONALI-
ZATION BILL UPON ITS FIRST READING AUG 14 AND IS SCHEDULED TO
BEGIN THE BILL'S SECOND READING AUG 18. THE CONGRESS AS A
WHOLE EXPECTS TO COMPLETE FINAL ACTION ON THE BILL BY THE END OF
NEXT WEEK. END SUMMARY.

1. COMPLETING TWO WEEKS OF DEBATE ON THE BILL TO NATIONALIZE THE
VENEZUELAN PETROLEUM INDUSTRY, THE SENATE AUG 14
APPROVED THE BILL UPON ITS FIRST READING. FOLLOWING LAST WEEK'S
MAJOR ADDRESSES BY EX-PRESIDENTS CALDERA AND BETANCOURT,
DEBATE CENTERED ON ARTICLE 1, WHICH WAS APPROVED AUG 11,
AND ARTICLE 5, APPROVED AUG 14. OPPOSITION SENATORS
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OBJECTED TO THE PROVISION IN ARTICLE 1 WHICH STIPULATES THAT

EXISTING OIL CONCESSIONS WILL BE EXTINGUISHED 120 DAYS AFTER THE NATIONALIZATION BILL IS SIGNED INTO LAW. THEY MAINTAINED THAT THE CONCESSIONS SHOULD BE ABROGATED WITHIN A SHORTER PERIOD THEREBY CONSERVING FOR THE NATION THE INCOME THAT THE OIL COMPANIES WOULD OBTAIN FROM THE CONCESSIONS DURING THE 120 DAYS. VOTING PARAGRAPH BY PARAGRAPH, ONLY GOVERNING AD PARTY SENATORS VOTED IN FAVOR OF PARAGRAPH 2, WHICH CONTAINS THE 120-DAY CLAUSE, WHILE THE OTHER PARAGRAPHS WERE APPROVED UNANIMOUSLY.

2. DURING THE DEBATE ON ARTICLE 5, WHICH LEAVES THE DOOR OPEN FOR POSSIBLE FUTURE PARTICIPATION BY FOREIGN INTERESTS IN THE NATIONALIZED OIL INDUSTRY, OPPOSITION SENATORS REPEATED THEIR PARTIES' OBJECTIONS TO MIXED FOREIGN-VENEZUELAN ENTERPRISES. SENATOR GODOFREDO GONZALEZ, SPOKESMAN FOR THE COPEI PARTY, ALLOWED THAT FROM A COMMERCIAL POINT OF VIEW NATIONALIZATION WAS A "BAD MOVE" BUT THAT IT WAS JUSTIFIED BY PETROLEUM'S STRATEGIC VALUE. MEP LEADER LUIS PRIETO STATED HIS PARTY'S FIRM OPPOSITION TO MIXED ENTERPRISES, CHARACTERIZING THEM AS BEING WORSE THAN THE PRESENT CONCESSIONS SYSTEM. IN THE SUBSEQUENT VOTING, PARAGRAPH 1 OF ARTICLE 5 WAS APPROVED UNANIMOUSLY. HOWEVER, ONLY THE AD SENATORS, SUPPORTED BY THE CCN'S LONE SENATOR AND SENATOR HERMOGENES LOPEZ, AN INDEPENDENT ELECTED ON THE COPEI SLATE, VOTED FOR PARAGRAPH 2, WHICH CONTAINS THE CONTROVERSIAL REFERENCE TO "ASSOCIATION AGREEMENTS." MEP, COPEI, URD AND MAS SENATORS VOTED AGAINST THE OFFENDING PARAGRAPH.

3. THE REMAINING ARTICLES OF THE BILL WERE APPROVED WITH ONLY LIMITED DEBATE. ON THE RECOMMENDATION OF THE SENATE MINES COMMITTEE, ARTICLE 15 WAS MODIFIED TO REMOVE A PROVISION EXONERATING THE NATIONALIZED COMPANIES FROM THE PAYMENT OF MUNICIPAL AND STATE TAXES. THIS PROVISION WILL BE CONTAINED IN A NEW ARTICLE 27, THE PREVIOUS ARTICLE 27 BEING RENUMBERED AS 28. THE SENATE MINES COMMITTEE WILL CONSIDER ADDITIONAL MODIFICATIONS TO THE BILL AUG 15, INCLUDING A CHANGE IN THE WORDING OF ARTICLE 1. FINANCE MINISTER HECTOR HURTADO APPEARED BEFORE THE CONGRESSIONAL JOINT STEERING COMMITTEE AUG 12 AND ASKED THAT ARTICLE 1 BE CHANGED TO STIPULATE THAT THE OIL CONCESSIONS WILL BE ABROGATED ON DEC 31 INSTEAD OF 120 DAYS AFTER THE LIMITED OFFICIAL USE

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PROMULGATION OF THE NATIONALIZATION BILL AS PRESENTLY WORDED. THE SENATE IS SCHEDULED TO BEGIN THE BILL'S SECOND READING AUG 18.

4. IN A RELATED MOVE, MINES MINISTER VALENTIN HERNANDEZ ANNOUNCED AUG 13 THAT THE GOV WILL INVEST BS. 25 BILLION IN THE NATIONALIZED OIL INDUSTRY OVER THE NEXT FIVE YEARS. HE ALSO ESTIMATED THAT THE ANNUAL INCOME OF PETROVEN, THE STATE HOLDING

COMPANY FOR THE NATIONALIZED INDUSTRY, WILL AMOUNT TO BS. 3 BILLION. THIS AMOUNT WILL BE DERIVED FROM THE TEN PERCENT OF NET INCOME OF THE OPERATING COMPANIES PAID TO PETROVEN. HE FURTHER ESTIMATED THAT VENEZUELA'S OIL PRODUCTION DURING THE NEXT FIVE YEARS WILL AVERAGE 2.2 MILLION BARRELS PER DAY OF WHICH 2 MILLION BARRELS WILL BE EXPORTED.

5. COMMENT. THE SENATE WILL CONSIDER ANY ADDITIONAL CHANGES TO THE NATIONALIZATION BILL SUGGESTED BY THE MINES COMMITTEE DURING THE BILL'S SECOND READING. ARTICLE 1 WILL PROBABLY BE MODIFIED TO PROVIDE FOR THE ABROGATION OF THE CONCESSIONS ON DEC 31, AND OTHER SMALL CHANGES ARE POSSIBLE. THE SENATE IS EXPECTED TO PASS THE BILL BY THE END OF NEXT WEEK AFTER WHICH IT WILL RETURN TO THE CHAMBER OF DEPUTIES FOR ITS CONCURRENCE IN MODIFICATIONS EFFECTED BY THE SENATE. ANY LACK OF AGREEMENT BETWEEN THE TWO HOUSES AS TO THE WORDING OF THE BILL WOULD BE RESOLVED IN A JOINT CONGRESSIONAL SESSION. IN ANY EVENT, CONGRESS IS EXPECTED TO COMPLETE ACTION ON THE BILL PRIOR TO AUG 25, THE LAST DAY OF THE EXTENDED CONGRESSIONAL PERIOD.
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